MONTEREY PENINSULA WATER SUPPLY PROJECT

PROGRESS REPORT

July 31, 2015

CALIFORNIA AMERICAN WATER

Test Well Pumping Suspended Pending Coastal Commission Permit Approval

California American Water temporarily suspended operation of its desalination test well in June after observing water levels dropping at a nearby monitoring well. This action was taken in accordance with provisions of the California Coastal Commission test well permits that require the company to monitor groundwater elevations and suspend pumping if the groundwater elevation drops more than one and a half feet at a specific monitoring well. In such a situation, the permits require the independent Hydrogeologic Working Group to analyze available data and determine if the drawdown was caused by test well pumping. The original permit language requires California American Water to seek a permit amendment if the working group determines the pumping contributed "any" amount to the drawdown.

The Hydrogeologic Working Group performed the required analysis and delivered a memo to the Coastal Commission concluding that the test well pumping contributed a very small amount to the regional drawdown, which was instead primarily caused by summer increases in regional pumping in the inland basins. Based on these findings, the working group drafted an application to amend the language of the related permits to allow monitored pumping to continue unless and until there is a 1.5 foot drawdown in the compliance well that is caused entirely by test well pumping.

California American Water submitted that application to the California Coastal Commission on July 23, 2015. It is anticipated the Coastal Commission will act on this at their regularly scheduled September meeting.

Environmental Impact Report Comment Period Extended

The California Public Utilities Commission (CPUC) has extended the Draft EIR public comment period to September 30, 2015, as it sorts out potential conflict-of-interest issues that have recently been raised regarding one of its hydrogeological consultants. In his recent ruling, CPUC Administrative Law Judge Gary Weatherford noted that the CPUC had learned that its consultant, Geoscience, also has a contractual relationship with California American Water; Geoscience's president holds patents related to slant well technology. Because there may be overlap between our seawater intake system and the systems described in the Geoscience patents, California American Water has entered into an agreement with Geoscience to obtain a no-cost license to use its patented technology. The purpose of this agreement is to provide certainty to the public and decision makers that Geoscience is not seeking to collect royalties in the event that the MPWSP utilizes its patented technologies. The CPUC believes these facts could raise a conflict of interest and is considering an independent review of the firm's work on the project. Geoscience's work pertained to the portion of the Draft EIR addressing the project's potential impact on local groundwater sources. The CPUC's investigation also includes an invitation for public comment and suggestions to mitigate the potential conflict. In the interim, the CPUC is discontinuing its relationship with Geoscience and will make all of the hydrogeology modeling work they have performed available for public review.

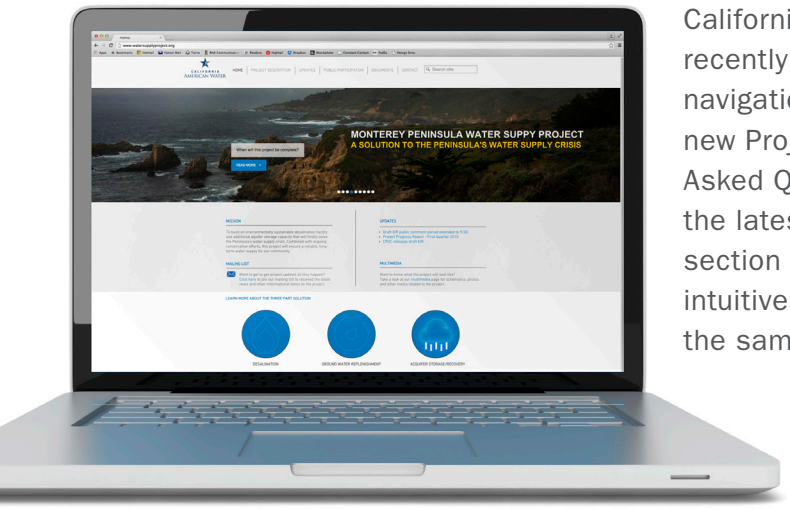
The CPUC has not yet stated how this will affect the final EIR's release date.

In his same ruling, Judge Weatherford said the CPUC would consider recirculating the Draft EIR as a joint state/federal environmental document under both the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA). The move would provide both the CPUC and the public additional time to weigh in on this and other potential issues in the CEQA/NEPA document.

"Every successful project depends on public input and participation. Meaningful public input is obtained when people are given the opportunity to comment on specific issues at relevant points in the decision-making process where there is potential to help shape the outcome. Such an opportunity exists today in the ongoing effort to develop a sustainable water supply for the Monterey Peninsula."

–Ian Crooks, Engineering Manager - California American Water, Coastal Division

Updated Water Supply Project Website: New Look, Easier to Access Information



California American Water's website, watersupplyproject.org, recently underwent a makeover. The new site allows for easier navigation and a more user-friendly design. Visitors will see a new Project Description section, which includes a Frequently Asked Questions page and a revamped Updates page providing the latest news and information on the project. The Document section of the website has also been reorganized to a more intuitive, subject-based filing system. Please visit the new site at the same address: watersupplyproject.org.

California American Water Issues RFP for Project's Conveyance Facilities

California American Water issued a request for proposals (RFP) for construction of the Monterey Peninsula Water Supply Project's conveyance facilities, which include transmission mains, a terminal reservoir and booster stations.

The qualified applicants, which have already been selected through a request for qualifications process, will receive an RFP by mid-August 2015 and will have until early October to submit their proposals for the project's desalination and aquifer recovery/storage conveyance facilities.

The firms selected to submit proposals are:

- Garney Construction
- Granite Construction
- Mountain Cascade
- Monterey Peninsula Engineering
- Steve P. Rados
- Ranger Pipelines
- W.A. Rasic Construction

On October 30, a notification of preferred proposer is due to be issued with the intent that a contract for services will be signed by early December.

The conveyance facilities will link the wells to the desalination plant, to the existing Monterey distribution system, as well as the pipeline extensions for the project's Aquifer Storage and Recovery components. The transmission line will include a 42-inch feedwater pipeline that will run a little more than two miles from the source water wells to the desalination plant. A 9-mile pipeline will run from the plant in Marina to a distribution point in Pacific Grove. In all, the project calls for more than 20 miles of pipeline at an estimated cost of more than $130 million.

About the Project

The Monterey Peninsula is facing a severe water supply problem. This is because the State Water Resources Control Board (SWRCB) has ordered California American Water to significantly reduce its pumping of water from the Carmel River. This order, coupled with pumping restrictions in other parts of the county, means that nearly 70% of the Monterey Peninsula community's historic water supply must be replaced.

The Monterey Peninsula Water Supply Project consists of three components:

- **Desalination**
- **Aquifer Storage and Recovery (ASR)**
- **Pure Water Monterey: Groundwater Replenishment (GWR)**

This multi-faceted approach brings numerous advantages over a single-source solution. For one, it will enable California American Water to build a smaller desalination plant that will reduce the project's environmental footprint. Secondly, this strategy will build-in redundancy that allows the water system to continue providing water if one component becomes temporarily unavailable.

DESALINATION

The desalination portion of the project consists of sub-surface slant intake wells, a desalination plant, and related facilities including source water pipelines, product water pipelines and brine disposal facilities. Depending on the availability of water from the GWR project, the desalination plant will be sized at either 9,750 acre-feet per year (afy) or 6,250 afy. One acre-foot is equal to one acre filled with a foot of water, which is typically enough water to support four households on the Monterey Peninsula for a year.

California American Water purchased a 46-acre parcel of land located off of Charles Benson Road in Marina as the site for the proposed desalination plant. California American Water has also secured access to and the ability to purchase permanent easements for locations to host its slant intake wells.

California American Water's project will use a series of slant wells located near the coastline in the North Marina area to draw ocean water. The slant wells will be up to 800 feet long. The final location, layout and configuration will be based on the results of the slant test well and groundwater modeling work.

Desalination plant rendering

In addition to the plant and its intake wells, other pipeline, storage and pump facilities will need to be constructed to ultimately deliver water to customers.

AQUIFER STORAGE AND RECOVERY

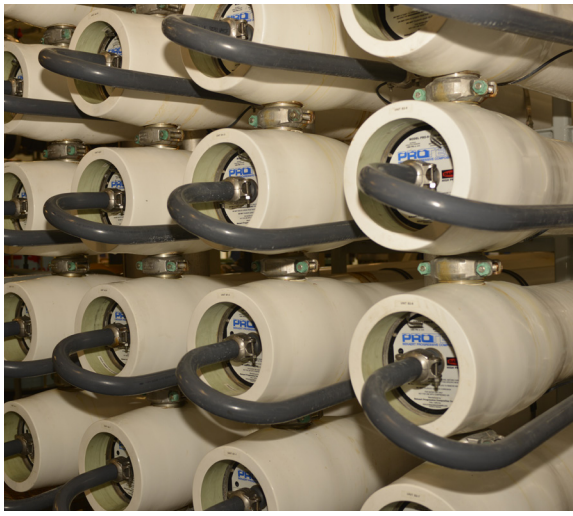
California American Water will expand its current ASR project – a partnership with the Monterey Peninsula Water Management District. The existing ASR wells capture excess winter flows from the Carmel River for storage in the Seaside Aquifer and withdrawal during the dry, summer months. Winter flows are considered excess only when they exceed what is needed to protect the river's threatened population of steelhead.

For the Monterey Peninsula Water Supply Project, the company plans to construct two additional ASR wells that will increase capacity of the program and allow the desalination plant to be smaller than would be needed without the wells.

PURE WATER MONTEREY: A GROUNDWATER REPLENISHMENT PROJECT

The proposed Pure Water Monterey project – a partnership between the Monterey Regional Water Pollution Control Agency and the Monterey Peninsula Water Management District – will recycle wastewater through an advanced treatment process. The resulting highly purified drinking water will be injected into the Seaside groundwater basin. A new, advanced water treatment plant will be constructed for the project in addition to a number of supporting facilities.

Source water for this project will go through a three-step treatment and purification process of microfiltration, reverse osmosis and oxidation with ultraviolet light and hydrogen peroxide — all commonly used in numerous industries and food manufacturing.



Budget: Major Portions of the Project

Subsurface Intake System and Supply Return Facilities: $51M (24% spent to date)

Desalination Plant: $95M (9% spent to date)

Pipeline Facilities: $131M (7% spent to date)

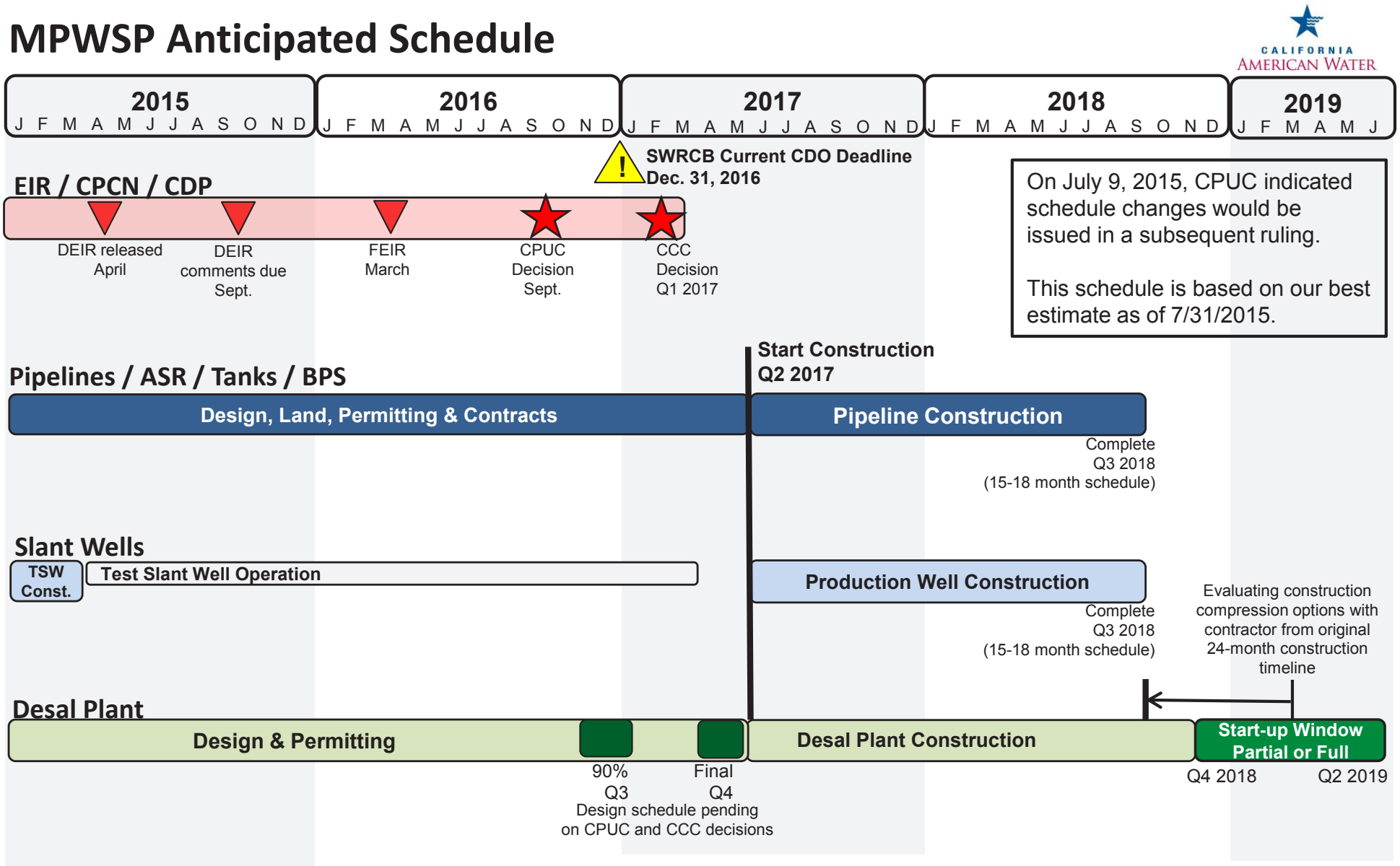
Pre-Construction Cost*: $8M (100% spent to date)

NOTE: *These figures are based on a 6.4 MGD desalination facility. Pre-construction costs are included in the $277M project total. Further breakdown of the above components will occur after the CPUC issues a Certificate of Public Convenience and Necessity permit for the MPWSP.*

** These figures include financing and some contingency costs and therefore differ from the capital costs listed in the settlement.*

Timeline

Below is a timeline depicting the major components of the project and their expected delivery dates.



Note: The schedule is based on the information and assumptions available at time of update and is accurate to +/-6 months.

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